

## Newsletter on the Common Agricultural Policy

No. 6

June 1971

### REFORM OF AGRICULTURE: AMENDED PROPOSALS SUBMITTED BY THE COMMISSION TO THE COUNCIL

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440/X/71-E

Published by the Division for Agricultural Information in collaboration with the Directorate-General for Agriculture of the European Communities Commission — 129, rue Stévin, Brussels 4

Amended proposals submitted by the Commission to the Council

Following its memorandum of 18 December 1968, the Commission submitted to the Council on 5 May 1970 five proposals for directives and an amended proposal for a regulation in order to give rise to a debate at ministerial level and to induce the Council to face its responsibilities not only on market and price policies, but also regarding a more comprehensive common agricultural policy involving a thorough reform of European agriculture.

During the marathon agricultural session from 22 to 25 March 1971, the Council adopted a resolution on 25 March expressing its determination to take joint action to improve agricultural structures, based on Community standards and implemented by means of measures taken by the Member States.<sup>1</sup>

Taking into account the views expressed by the European Parliament and the Economic and Social Committee, together with the lessons drawn from numerous discussions, the Commission, acting on the basis of the Council resolution, amended its proposals of 29 April 1970.<sup>2</sup>

These new proposals are four in number:

- A. Amendments to the proposed Council directive on the modernization of farms.
- B. Amendments to the proposed Council directive providing incentives to withdraw from farming and encouraging the redeployment of land to improve agricultural structures.
- C. Amendments to the proposed Council directive on farming qualifications and on the provision of social and economic information for farmers and farmworkers.
- D. Amendments to the amended proposal for a Council regulation on producers' groupings and associations thereof.

The Commission announced that it would later submit proposals on:

- (i) measures to encourage action under regional programmes for afforestation and recreation;
- (ii) the marketing and processing of agricultural produce

and make recommendations to the Member States on:

- (a) the introduction of a system of educational grants for children of farmers with low incomes,
- (b) legislative measures to encourage long-term leases.

A. Amended proposal for a Council directive on the modernization of farms

In the recitals, the Commission draws attention to the fact that the reform of agricultural structures is a basic feature of the future development of the common agricultural policy and that it should therefore be based on Community ideas and standards.

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<sup>1</sup> Cf. Newsletter on the Common Agricultural Policy, No. 3, March 1971.

<sup>2</sup> Ibid. No. 4, April 1970.

Since the causes of structural problems vary widely, it is obviously necessary to find solutions which differ according to the region concerned, are adaptable over a period of time, and must make a contribution to the economic and social development of the entire region. The Commission takes the view that the best result will be achieved if the Member States, acting on the basis of Community ideas and standards, themselves take joint action by making their own laws, regulations, and administrative provisions.

The main aim remains to create structural conditions which will guarantee farmers a fair income and a standard of living comparable with that of other groups of workers and to obviate a situation where differences in income in the farming sector become increasingly wider.

The Commission stresses the importance it attaches to the person running the farm possessing farming qualifications.

In order to ensure that farms develop along planned lines, the aims to be achieved as regards the profitability of the farm and the working hours of the persons employed there should be set out in a development plan.

Investment aids should, in principle, take the form of interest rebates so that the head of the farm would continue to be responsible for economic and financial matters.

The Commission included in this proposed directive a number of provisions which had previously appeared in the proposed directive laying down supplementary provisions on the modernization of farms. In order to ensure that agricultural markets are brought into lasting balance, it is necessary to encourage changes in the pattern of production, and particularly to switch milk production to beef and sheepmeat. As in the case of the modernization of farms and the creation of farms intended for development, a grant may be awarded in cases where a production changeover occurs so that farmers can be compensated for their efforts and for their temporary loss of earnings.

In view of the fact that, for biological reasons, the production of pigs, eggs and poultry can be increased very rapidly, efforts should be made to avoid increased production in these sectors to some extent and to grant incentives for farm development, only to farms and groups of farms which can themselves produce at least half the necessary feedingstuffs. The purpose is to protect the farmer from the clutches of capital from non-agricultural sources.

The Member States may grant transitional investment aid to make the situation of farmers whose farms do not, for various reasons, qualify for the agricultural reform measures, less difficult. With regard to the Member States' option of providing exceptionally for a degressive allowance to be granted in some areas during the period for which the development plan is valid, the Commission will submit a specific directive to the Council at the same time as the price proposals for agricultural produce for the 1972/73 farm year.

#### Contents of the main amended provisions

##### Development plan (Article 4)

1. ....

- (a) proves that, on completion, the agricultural enterprise designated for development, will be able to achieve, for at least one or two full-time workers in each area where the enterprise carries on its activities, a minimum annual working income comparable to that earned in occupations outside farming in that area and a yield from

the capital invested. It must be possible to achieve this income without the working year exceeding 2 300 hours.

(b) provides for the use of modern production techniques and for satisfactory working conditions.

2. The term "working income", within the meaning of paragraph 1, should be understood to mean the average annual gross wage, including payments made for social security purposes, earned by workers outside farming, in the area in which the agricultural enterprise concerned carries on its activities.

3. The Member States will lay down:

(i) the minimum number of full-time workers per farm, bearing in mind the type of products involved and the working conditions which result;

(ii) the yield from the capital invested;

(iii) the amount of comparable income; this shall be increased in accordance with the period covered by the plan in order to keep it in line with the expected increase in income in occupations outside farming.

4. The maximum period for the completion of the development plan is six years. However, the Member States may extend this period in specific areas.

It should be noted that the criterion of the adjusted gross product representing the volume required per full-time worker to achieve the proposed income has been replaced by the more flexible criterion of the comparable working income for all the workers employed.

The system of incentives (Article 8)

1. The system of incentives for farmers whose applications have been accepted and whose development plans have been approved, involves the following measures:

(a) Making available, as a matter of priority, the land freed by lease or sale.

(b) Aids taking the form of interest rebates for the investments required to see the development plan through, but excluding expenditure arising from the purchase:

(i) of land

(ii) of livestock other than cattle and sheep.

(c) Guarantees for loans raised and for the interest on such loans, in cases where personal and tangible security is inadequate.

2. The interest rebate referred to above (paragraph 1(b)) applies to the entire loan. It will be at a maximum rate of 5% and for a maximum period of 15 years. The rate of interest to be borne by the beneficiary may not be less than 3%.

The Member States may pay the equivalent of this aid in the form of a capital subsidy or of deferred repayment of loans.

However, the Council, acting on a proposal from the Commission, may authorize<sup>1</sup> a Member State for a specific period:

- (i) to grant interest rebates of more than 5% in cases where the situation of the capital market in the Member State justifies it;
- (ii) to lower the minimum interest rate to be borne by the beneficiary to 2% in some regions.

#### Accounting system (Article 11)

1. The Member States will grant to farmers for whom farming is their main activity, on request, an aid amounting to an inclusive annual sum of 100 u.a. for the first three years in which running accounts are kept on their farms.

#### 2. Such accounting operations

(a) will involve:

- (i) annual opening and closing stocktaking;
- (ii) regular and systematic recording during the accounting period of the various transactions in cash and in kind concerning the farm;

(b) result in the submission annually:

- (i) of a description of the general features of the farm, with special emphasis on the production factors employed;
- (ii) of a balance-sheet showing assets and liabilities and of detailed trading accounts (costs and products);
- (iii) of the data required to make an accurate assessment of how efficiently the farm, as a whole, is run, and particularly of working income per full-time worker and the farmer's income, as well as to estimate the profitability of the farm's main speculations.

The Commission considers an accounting system to be an indispensable tool to enable the head of the farm to make an accurate assessment of the economic situation and of the farm's prospects of growth. In the Community, very few heads of farms keep accounts - which is why the Commission sees an opportunity to develop a modern farming system by granting financial aid to dynamic farmers to encourage the use of an accounting system.

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<sup>1</sup> Voting procedure referred to in Article 43(2) of the Treaty.

Redeployment of land (Article 13)

The Commission recognizes the fundamental importance of national land improvement schemes, such as redeployment of land and irrigation. It proposes that part of the expenditure arising from land redeployment projects should be borne by the Community, in cases where it contributes substantially to the extension of farms.

Additional assistance measures taken at the national level (Article 14)

1. This directive does not prejudice the Member States' option of taking additional assistance measures which may differ from those referred to therein or which involve amounts in excess of the ceilings provided for, subject to the following conditions.
2. Investment aids to farms which fail to meet the requirements specified in Articles 2<sup>1</sup> and 4<sup>2</sup> are prohibited, except for:
  - (a) the aids referred to in Article 92(2 b and c) of the Treaty;
  - (b) aids granted to farmers whose main activity is farming, in the form of interest rebates or low-interest loans and provided that the rate of interest to be borne by the beneficiary is at least 6%. The Member States may pay the equivalent of this aid in the form of a capital subsidy;
  - (c) small sums of transitional aids for a period of five years after this directive takes effect, to assist farmers whose main activity is farming, who are under the age of 55 and are unable to attain the minimum working income stipulated in Article 4. These aids are granted in the form of interest rebates or capital subsidies on terms which may not be more favourable than those laid down in Article 8. The proposed capital projects are to be completed within ten years and, at the latest, when the beneficiary reaches the age of 55. The aids may not be used for the construction of new farm buildings.
3. In any event, the following kinds of aid are prohibited:
  - (a) Aids intended for the purchase of land except in the case of certain farms earmarked for development, but where it is impossible to rent on a long-term basis.
  - (b) Aids for the purchase of livestock other than cattle and sheep.
  - (c) Aids for the purchase of cattle and sheep are prohibited, however, except in cases where, after capital investment or on the completion of the development plan, the proportion of the farm's total sales accounted for by sales of cattle, sheep or milk exceeds 60%.

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<sup>1</sup> Article 2: main farming activity  
farming qualifications  
bookkeeping  
development plan

<sup>2</sup> Article 4: see page 2.

The estimated cost of measures taken to modernize farms

The Commission expects the total cost of the joint measures, to be borne by the European Guidance and Guarantee Fund, to amount to 600 million u.a. (FF 3 333.3, Bfrs. 30 000) for the first five years. The scheme is to be put into effect over a period of ten years.

The Guidance Section of the EAGGF repays the Member States 25% of the eligible expenditure.

However, the share of this expenditure borne by the Community may not exceed 150 u.a. (FF 833.33, Bfrs. 7 500) per hectare in the case of redeployment of land, including the work connected therewith, and 250 u.a. (FF 1 388.89, Bfrs. 12 500) per hectare in the case of irrigation. The Commission assumes that the average investment required for each modernized farm will amount to 20 000 u.a. (FF 111 111.11, Bfrs. 1 million).

Modernized farms are eligible for an interest rebate bringing the market interest rate down from 8% to 3%.

The Commission thus expects the number of farms modernized between 1972 and 1976 inclusive to be 480 000, the annual increases being as follows: 40 000 (1972), 90 000 (1973), 90 000 (1974), 130 000 (1975), 130 000 (1976).

B. Amended proposal for a Council directive providing incentives to withdraw from farming and encouraging the redeployment of land to improve agricultural structures

The basic aim of this directive is to make it possible to put the previous directive into effect: if income from farming is to be increased, production costs must be lowered; costs may be reduced by creating farms of suitable size and, to set up such farms, it is essential to have free land available.

In order to achieve this objective, it is necessary to grant aids to farmers who leave the land and redeploy the land they farm to improve agricultural structures.

An adequate incentive to free land would be provided by a sufficiently attractive grant to all farmers, calculated on the basis of the area made available.

However, heads of farms over the age of 55 usually experience serious difficulty in readaptation themselves to other occupations; for this reason, they should also be granted annual allowances until they reach the age of 65 so that they can meet their needs once they have left the land.

The desired aims will not be achieved if the farmer benefiting from the measures described continues to place farm produce on the market; however, it is desirable that the farmer should be able to keep a limited area for his own use, if he so wishes.

No financial aid on the Community's part is required for the grant, which is calculated on the basis of the farming area made available; on the other hand, the annual allowance paid to farmers aged between 55 and 65 is of special Community interest in cases where it is to be awarded in backward farming regions, in which the incentives offered to induce farmers to leave the land have not yet taken effect.

For the purposes of this directive, the term "backward farming regions" means economically undeveloped areas in which it is of special importance that farming structures should be improved.

Since the Community assists in financing these joint measures, it must be in a position to ensure that the provisions made by the Member States to put them into effect serve to achieve the aims in view. For this purpose, arrangements should be made to establish close cooperation between the Member States and the Commission. It is essential to ensure that the joint measures are implemented smoothly and speedily in the various regions of the Community. Finally, it is advisable that, after the measures have been put into effect for a period, the procedure for providing incentives to induce farmers to leave the land should be reviewed by the Council, without prejudice, however, to the commitments entered into during this period.

#### A few details about the amendments

The Member States will introduce a system of incentives to induce farmers to leave the land and to redeploy the area farmed for improving agricultural structures.

#### Allowance for farmers leaving the land (Article 2)

1. The system of incentives includes:

- (a) an annual allowance of at least 600 u.a. (FF 3 333.33, Bfrs. 30 000) per beneficiary for farmers between the ages of 55 and 65 whose main activity is farming, who apply for such aid.

Instead of this allowance, the Member States are authorized to pay a lump sum of equivalent effect;

- (b) a grant amounting to at least eight times the rental value of the farming area made available for farmers who apply for such aid.

The Member States may not award the grant, in all or in part, to farmers receiving the annual allowance.

- (c) the annual allowance for paid workers and full-time family helpers, if they apply for such aid, aged between 55 and 65 and employed on farms where farmers qualify for the incentives to leave the land.

2. Incentives are only granted if the beneficiary withdraws from farming. If he is an owner-farmer, he must make his farming area available (Art. 6):

- (i) for non-agricultural purposes (afforestation, recreation, public health);
- (ii) either for lease for at least 18 years or for sale to other farmers receiving incentives to modernize their farms;
- (iii) either for lease for at least 18 years or for sale to estate agencies for non-agricultural purposes or for modernizing farms.



Financing and the expected cost of the incentives to induce farmers to leave the land

The Community's financial contribution (Article 11)

The Guidance Section of the EAGGF repays the Member States 25% of the minimum and eligible amount of the annual allowance of 600 u.a.

In order to speed up the process, however, and to enable those regions where incentives are not yet offered to induce farmers to leave the land, to make up their leeway, it is provided that the Community shall contribute 65% of the costs in these regions.

Regions meeting the following criteria will be regarded as backward regions:

- (i) Regions in which the percentage of the working population employed on the land exceeds the Community average;
- (ii) Regions in which the per capita gross national product at factor cost is lower than the Community average.

The total costs which the EAGGF is expected to have to bear for the joint measures amount to 288 million u.a. for the first five years.

It is expected to take ten years to see the scheme through.

Basis of calculation

The allowance will amount to 600 u.a. per year and per beneficiary.

It has been agreed that withdrawals should take place on 30 June each year so that, during the year in which the farmers withdraw from the land, the cost would be only half the annual amount of the allowances.

The total annual cost is increased by an overall sum amounting to 20% of this cost in order to take into account paid workers or full-time family helpers who claim the allowances.

It has been agreed that the total number of farmers benefiting from the scheme should total 400 000 during the period 1972-76, of whom 200 000 will be living in backward farming regions in which the system of incentives for farmers leaving the land is not yet in force.

It may be assumed that, from 1974 inclusive, 5% of the number of beneficiaries in previous years will have passed the age-limit of 65.

C. Amended proposal for a Council directive on farming qualifications and on the provision of social and economic information for farmers and farmworkers

Farming structures can be overhauled only if a large number of those employed on the land carry on their activities along vastly different lines.

This fundamental conclusion prompted the Commission to consider the facts and situation as they stand and to propose that measures should be taken to make up for existing shortcomings.

The choice involved in any redirecting of activities in the farming sector, or any switch to other sectors, must be made with an awareness of the opportunities which exist and of the consequences the choice implies.

In many regions of the Community, this choice is more difficult to make because, as far as individual families are concerned, at present no information of a socio-economic nature is supplied to the farming community or not on an adequate scale, and too few staff are employed on this work.

Owing to the development and specialized nature of farming, it is necessary to raise the standard of general, technical and economic training among those employed on the land.

The fact that there are too few training centres and establishments for vocational retraining interferes, in many regions, with the efforts made to turn the heads of farms into modern business managers, in the proper sense, and, in general, to give vocational retraining to farmers, farmworkers and family helpers.

When people employed on the land leave farming, they are usually obliged to retrain for another occupation, and they can only do so, if they have a guaranteed income during the periods they are undergoing retraining.

#### V. Provision of socio-economic information to those employed on the land

In order to enable those employed in farming to reach decisions concerning their future occupation and that of their children, the Member States will introduce a scheme aimed at supplying information of a socio-economic nature to farmers, farmworkers and family helpers.

This scheme will involve:

- (i) setting up, developing and running socio-economic information services, either on a public or on a private basis;
- (ii) setting up, developing and running centres, on a public or private basis, for the training and further training of socio-economic advisers.

The information services will be responsible for:

- (1) spotting and diagnosing individual cases where agricultural structures have to be adapted owing to changing socio-economic conditions;
- (2) coordinating all the factors of a technical, economic, legal, social and human nature;
- (3) supplying information to those concerned and advising them with a view to:
  - (a) continuing their career in farming, but with radical changes in the line of their activity; such changes

may involve switching production, reorganizing the farm, changing to a different farm, or changing jobs within agriculture;

- (b) switching to another industry;
  - (c) stopping work for good;
- (4) directing those concerned to the relevant specialized departments, depending on the decisions contemplated or already taken.

## II. Farming qualifications for those employed on the land

In order to enable those working on the land who have passed the school-leaving age to acquire further qualifications in farming or to improve those they already possess, the Member States will introduce a system of incentives for the professional advancement of farmers, farmworkers and family helpers, and for their vocational retraining.

## III. The vocational retraining of persons employed on the land who wish to take up an occupation outside farming

With a view to enabling persons employed on the land and intending to take up an occupation outside farming to attend vocational retraining courses, the Member States will introduce a system of aids to ensure that those concerned will have a guaranteed income during the period they are undergoing retraining and entitling them to social security benefits or giving them a continued right to such benefits.

## Cost and financing of the planned measures

The expected total cost of the joint measures to be borne by the EAGGF will amount to 110 million units of account during the first five years. The scheme should take ten years to complete.

The Guidance Section of the EAGGF will refund to the Member States:

- (i) 25% of eligible expenditure for the provision of socio-economic information to those employed on the land; the overall total of eligible expenditure may not exceed 4 000 u.a. for each socio-economic adviser appointed;
- (ii) 25% of eligible expenditure for the training of advisers; maximum eligible expenditure being 4 000 u.a. for each adviser who receives training or further training;
- (iii) 25% of eligible expenditure which may not exceed a total of 2 000 u.a. for each farmer who has followed a full course of vocational training or further study.

It is estimated that 3 000 socio-economic advisers will be trained during the period 1972-75. The cost of training an adviser will be 3 840 u.a. per year.

The number of farmers attending courses at centres for training, further training, and readaptation for work on the land is expected to increase as follows:

1972: 8 000; 1973: 16 000; 1974: 24 000; 1975: 32 000; 1976: 40 000.

The annual cost of training one farmer is estimated at 2 000 u.a.

Finally, on a temporary basis, the EAGGF will provide part of the guaranteed income paid to farmers training for occupations outside farming. Later, the European Social Fund will take over this expenditure.

D. Amended proposal for a Council regulation on producers' groupings and associations thereof

It is essential that steps should be taken, in the Community as a whole, to encourage farmers to organize themselves in groups. The fact that many farms are relatively small in size often makes it difficult to increase agricultural productivity, achieve technical progress and ensure the rational development of production and the optimum use of the factors of production. These obstacles may be overcome to some extent if farmers make their influence felt in economic life by taking various forms of joint action. This is the fundamental argument put forward by the Commission to justify Community incentives to encourage the formation of producers' groupings and associations. In order to "ensure a fair standard of living for the agricultural community, to stabilize markets, and to ensure that supplies reach consumers at reasonable prices",<sup>1</sup> it is essential to encourage farmers to concentrate supplies and to take joint action to adapt their output to market requirements.

These aims may be pursued not only by bringing individual farmers together in producers' groupings, but also by forming associations of these groupings.

Those groupings, which meet the required conditions laid down for the Community as a whole, deserve to receive inducements in the form of aids to cover part of the expenditure they incur in forming and running such groupings, together with the investments necessary to put their common regulations into effect.

In order to encourage farmers to concentrate their supplies on an even greater scale, incentives should be offered to recognized associations - on submission of a plan showing what use they proposed to make of such inducements - in the form of a single development aid together with investment aids.

To avoid any distortion of competition, it is necessary to make the granting of such aids compulsory within maximum limits; however, it should be possible to exceed these limits in the case of specific aids to allow for seriously deficient structures in some regions of the Community.

If they are to be effective, the groupings and associations must be of adequate economic size. The regulations governing the common organization of the market in fruit and vegetables<sup>2</sup> and the common organization of the market in fisheries products<sup>3</sup> provide for the establishment of producers' organizations and their associations pursuing the same aims as the groupings and their associations. It is necessary to make uniform arrangements for producers' groupings in the various sectors of products, by also applying to the two sectors mentioned the provisions contained in this outline regulation.

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<sup>1</sup> Art. 39 of the Treaty.

<sup>2</sup> No. 159/66/EEC.

<sup>3</sup> No. 2142/70.

In cases where a recognized producers' grouping or a recognized association no longer fulfils the conditions laid down in the regulation, recognition should be withdrawn.

The aids granted

1. The Member States will grant to recognized groupings during the three years following the date of recognition aids to cover their formation and running costs. The amount may not exceed, for the first, second and third years respectively, 3%, 2% and 1% of the value of the products thus recognized and put on the market, without exceeding, however, for the first, second and third years respectively, 60, 40 and 20% of the actual costs incurred in forming and running such groupings.

For each year, the value of the products put on the market is calculated inclusively on the basis:

- (i) of the average quantity of products marketed by member producers during the three calendar years prior to their membership;
  - (ii) of the average production prices obtained by these producers during the same period.
2. Those associations existing at the time the regulation comes into force are not eligible for aids, if they do not have to bear the costs involved in adapting arrangements to meet the conditions laid down in this regulation.
  3. The Member States will grant to recognized groupings and the recognized associations during the five years following the date of their recognition aids to cover the investments involved in applying common regulations and intended to improve production and marketing conditions, together with storage, sorting, packaging and other forms of preparation for sale. The aim of these investments must be to acquire real or personal estate which is to remain the property of the grouping or of the association or the joint property of their members.

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